

INSIGHTS

## U.S. Futures Exchanges Disciplinary Actions Report - February 2017

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### NYMEX

#### **NYMEX 16-0600**

*Misc.*

Rules 413 – Summary Access Denial Actions (in part) and 413.A – Authority to Deny Access.

On January 5, 2017, CME Group’s Market Regulation Department summarily denied a member’s direct and indirect access to the CME Globex electronic trading platform for purposes of trading or entering Trading at Settlement (“TAS”) orders in any product. The summary access denial prohibited the member, or anyone on behalf of the member, from trading TAS, placing TAS orders, and controlling or directing TAS trading for any person, entity, or account in any CME Group exchange product. The member has since demonstrated changes to their TAS order entry and messaging practices and the Chief Regulatory Officer believes that the member has alleviated the need to continue the summary access denial. Therefore, the Chief Regulatory Officer ended the access denial effective immediately.

#### **NYMEX 15-0200-BC-6**

*EFRP*

Violation of Rules 538 – Exchange for Related Positions and 538.C. – Related Position.

The Panel found that the non-member entered into a non-bona fide EFRP transaction on December 1, 2014, because the transaction did not involve the requisite transfer of ownership between the non-member and its counterparty of the cash commodity underlying the Exchange contract or a by-product, related product, or OTC instrument. The Panel found that the non-member, as a party to the noted EFRP transaction, bore the responsibility to comply with Exchange Rules and such responsibility could not be deferred to a broker or Futures Commission Merchant. \$30,000 fine.

### ICE

#### **2016-048**

*Position Limits*

Violation of Rule 6.20(b) – Position Limits, Conditional Limits and Position Accountability for Energy Contracts.

Entity allegedly held an intra-day position in the Henry LD1 Fixed Price Future in excess of the applicable spot month position limit during the July 2016 expiration period. Shortly after notification from the Exchange, the entity liquidated its overage position, resulting in a profit of \$78,847.50. Following this occurrence, the entity undertook remedial measures and training. \$10,000 fine, \$78,847.50 in disgorged profits, and cease and desist from future violations of Rules 6.20(b) pursuant to settlement.

**2015-038**

*Pre-Arranged Trades*

Violation of Rules 4.02(c) – Trade Practice Violations and 4.01(a) – Duty to Supervise.

A subcommittee found that two entities may have committed sixteen violations on February 26 and 27, 2015 by executing wash sales in Sugar No. 11 Futures when the affiliated firms traded opposite each other for the purpose of affecting position transfers. In addition, these two entities allegedly failed to supervise the Exchange-related activities of its employees. \$25,000 monetary penalty each and cease and desist from future violations of Exchange Rules 4.02(c).

**2015-093**

*Misc.*

Violation of Rule 4.02(k)(2)(c) – Trade Practice Violations.

An entity allegedly committed a violation when an employee learned of a potential Cotton No. 2 Futures spread order from the customer of an affiliated entity during a pre-execution communication to negotiate a block trade on April 17, 2015 and appeared to pre-hedge that potential order. \$50,000 monetary penalty, including \$8,090 in disgorged profits, and cease and desist from future violations of Rule 4.02(k)(2)(c) in accordance with settlement terms.

**2016-003**

*Position Limits*

Violation of Rule 6.20(b) – Position Limits, Conditional Limits and Position Accountability for Energy Contracts.

A subcommittee determined that the entity may have violated the rule on multiple occasions by holding an intraday position in excess of the applicable spot month position limits. \$50,465 monetary penalty, including \$2,965 in disgorged profits, and cease and desist from future violations of Rules 6.20(b) pursuant to settlement terms.

**2016-015**

*Position Limits*

Violation of Rule 6.20(b) – Position Limits, Conditional Limits and Position Accountability for Energy Contracts.

An entity allegedly violated this rule on one occasion during the March 2016 expiration period by holding an intra-day position in the Henry LD1 Fixed Price Future in excess of applicable spot month position limits. Consequently, the entity realized a profit of \$102,945. \$10,000 fine, \$102,945 in disgorged profits, and cease and desist from future violations of Rules 6.20(b).

**CBOT**

**CBOT 16-0454-BC***Pre-Arranged Trades*

Violation of Rules 538.C. – Related Position and 534 – Wash Trades Prohibited.

The Panel found that on June 2, 2015, a member entity executed two Exchange of Futures for Risk (“EFR”) transactions in the Federal Funds Futures market that consisted of the simultaneous exchange of futures positions without the exchange of related cash positions, resulting in the execution of non-bona fide EFRs. In addition, the Panel found that the member entity executed these transactions for the purpose of transferring positions between the accounts of two of its wholly owned subsidiaries. \$30,000 fine pursuant to the settlement offer.

**CBOT 15-0187-BC***Disruptive Trading*

Violation of Rules 575 – Disruptive Practices Prohibited and 575 RA1405-5R (in part) – Market Regulation Advisory Notice Disruptive Practices Prohibited.

The Panel found that between March and June 2015, a non-member individual entered multiple orders in 10-Year U.S. T-Note user-defined covered option spread instruments on the Globex electronic trading platform for the purpose of avoiding the allocation of futures contracts that should have been associated with the covered options instrument, which resulted in more favorable prices for the options instruments than were available in the outright market. \$20,000 fine pursuant to settlement offer.

**CBOT 16-0523-BC***Pre-Arranged Trades*

Violation of Rules 538.C – Related Position and 534 Wash Trades Prohibited.

On January 4, 2016, a non-member firm allegedly executed an Exchange for Physical (“EFP”) transaction in the Corn Futures market that consisted of a simultaneous exchange of a futures position without the exchange of a related cash position, resulting in the execution of a non-bona fide EFP. In addition, the Panel found that the non-member firm executed the transaction for the purpose of transferring positions between two accounts over which the non-member firm maintained ownership and control. \$25,000 fine pursuant to settlement offer.

\*\*If you have any questions about the information contained in this month's report, please contact: [David Perlman](#), [Michael Brooks](#), [Bob Pease](#), [Jennifer Gordon](#) or [Chelsea Carbone](#).